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recovered over the life of the asset through depreciation expense. As a result, recovery of the cost of funds supporting long-term construction projects can be spread out over many years as the asset is depreciated.

For short-term plant under construction, *i.e.*, projects that will be completed within one year, the situation is different. Under the Commission's rules, investments in short-term projects are included in rate base immediately. This is reasonable because the short-term nature of the project means that current ratepayers will begin receiving the benefit from the placement of the asset almost immediately -- by definition, within a matter of months. As the Commission stated more than a decade ago when it adopted this approach, "in the case of projects with short construction lives (less than one year) it is neither practical nor necessary to separate current and future users,"[5] and, as a result, it is appropriate to "includ[e] short-term construction projects in the current rate base as the investment is incurred" and to "neither compute nor capitalize IDC on such amounts ... ."[6]

Capitalizing AFUDC accruals on short-term construction projects increases the riskiness proposal in the Notice to require IDC on short-term plant under construction. This proposal would *increase* the amount of capitalized costs associated with network investments, which would increase the riskiness of those investments and, therefore, tend to discourage them in the first place.[8]

The proposal regarding short-term plant under construction is also incongruous with Commission policies designed to promote innovation and productivity. For example, the Commission implemented price cap regulation for local exchange carriers to motivate them to increase productivity by, among other things, creating innovative new services and providing new and existing services in the most efficient way possible.[9] The proposal to require IDC accruals on short-term plant under construction would frustrate the productivity incentives of price cap regulation by denying carriers a cash return on the very investments to modernize and enhance the network that price cap regulation is designed to encourage.[10]

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[8] The Commission acknowledged this fact at the time it adopted the current policy, when it noted that including short-term construction projects in rate base immediately, without any capitalized AFUDC amounts, would improve AT&T's cash flow, thereby reducing its overall risk and cost of capital. *See* Docket No. 19129 at ¶ 150. Reversing this policy, therefore, would tend to increase the riskiness of carrier investments.

[9] ***Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order,*** 5 FCC Rcd 6786 at ¶ 31 (1990).

[10] Even if the Commission concludes that long-term and short-term plant under construction should be treated the same way, the current distinction between these two items in Part 32 accounts should be retained to provide the data necessary should state regulators continue the practice (now also included in the Commission's Part 65 rules) of providing a current cash return requirement on short-term plant under construction.

## Conclusion

For the reasons stated above, the Commission should continue its current policy of providing a current cash return on short-term plant under construction, because short-term plant under construction benefits current ratepayers. The Commission, however, should adopt the Notice's proposed "revenue requirement offset method" and accrual of IDC, to the extent that these rule changes are applied only to long-term plant under construction.

Respectfully submitted,

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